

Consumption still the main driver of Poland's economic growth in second quarter

Today's retail sales figures for May came in strong, reinforcing the view that consumption remains the main driver of growth in 2Q. The numbers partially helped to offset yesterday's data, which was disappointing to those looking for signs of an investment recovery. Our forecast of at least 3.2% GDP growth for the year remains intact



Retail sales of goods at constant prices increased by 4.4% year-on-year in May (ING: 5.2%; consensus: 4.3%), following an impressive April (partly due to calendar effects), when retail sales growth reached 7.6% YoY, the highest in nearly three years.

More importantly, sales continue to show an upward trend in durable goods categories. In May, significant growth was recorded in the furniture, electronics, and household appliances group (18.9%), as well as in motor vehicles, motorcycles, and parts (15.7%), marking another consecutive month of high, double-digit growth.

While there were doubts in the April data about whether the solid rise in retail sales was due to the frontloading ahead of trade wars, today's data points towards a higher likelihood of improving consumer strength. What is worth underlining is that in May, seven out of eight retail sales categories recorded growth (the exception being a decline in the "other" group). Relatively small increases (1.5% YoY) in the "food, beverages, and tobacco products" category, which dampened the overall retail sales dynamics, were related to the effect of a late Easter (in April), and we do not consider them to be a worrying signal.

To sum up, one of the two key drivers of GDP growth this year, private consumption, is doing well and significantly better than the second engine of the economy, public investment, as shown by yesterday's weak construction data.

The latest set of domestic data published yesterday, including industrial production and construction-assembly production, turned out to be disappointing, as it did not confirm the expected economic recovery. Although industrial production increased in the previous month, it was below consensus and mainly due to the calendar effect (a higher number of working days). The production data aligns with the recent negative surprises seen in the May PMI index for Polish industry, among others. Construction-assembly production fell more than expected, with no significant recovery in public investment yet. Moreover, growth in specialised works significantly slowed down in May. The acceleration of public investment related to EU funds from the National Recovery Plan should contribute to the recovery. However, the latest revision of the NRP shifts some payments from the second half of 2025 to the first half of 2026, so we will likely have to wait until 2026 for a solid rebound in infrastructure investment.

Our baseline scenario remains a gradual improvement in the economy and GDP growth of 3.2% YoY (or slightly higher) for the entire 2025, but the May data confirms that expectations for growth of 3.5-4.0% YoY are overly optimistic. In addition to the domestic factors affecting GDP, the external environment is also not conducive to a faster recovery. In Germany, we see a slow implementation of the fiscal package. And adding to the headwinds is growing uncertainty around global trade, driven by potential US tariffs and tensions in the Middle East, which could further dampen business and consumer sentiment.

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

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